



NVIDIA Corporation (NVDA)

Updated August 19th, 2019 by Jonathan Weber

Key Metrics

Current Price:	\$160	5 Year CAGR Estimate:	9.5%	Volatility Percentile:	97.8%
Fair Value Price:	\$118	5 Year Growth Estimate:	15.0%	Momentum Percentile:	8.7%
% Fair Value:	136%	5 Year Valuation Multiple Estimate:	-5.9%	Growth Percentile:	97.8%
Dividend Yield:	0.4%	5 Year Price Target	\$238	Valuation Percentile:	10.3%
Dividend Risk Score:	A	Retirement Suitability Score:	C	Total Return Percentile:	44.0%

Overview & Current Events

NVIDIA Corporation is a specialized semiconductor company that designs and manufactures graphics processors, chipsets and related software products. Its products include processors that are specialized for gaming, design, artificial intelligence, data science and big data research, as well as chips designed for autonomous vehicles and robots. NVIDIA was founded in 1993, is headquartered in Santa Clara, CA, and is valued at \$97 billion.

NVIDIA reported its second quarter earnings results on August 16. The company generated revenues of \$2.58 billion during the quarter, which was 17% less than the revenues that NVIDIA generated during the previous year's quarter. This was a surprise to the upside, though, as the analyst community had forecast an even larger decline for the quarter. The revenue decline was the result of several factors, one of them being the decline in cryptocurrency mining. Other factors played a role as well, though, such as lower gaming chip sales. Revenues for this segment declined by 27% year over year, and even the data center segment, which had been a steady growth driver in the past, reported a sales decline of 14% year over year. Automotive revenues were higher than expected, coming in at \$210 million during Q2. NVIDIA generated earnings-per-share of \$1.24 in the second quarter, which was ahead of what the analyst community had forecast. Due to the lower revenues compared to the previous year's quarter, coupled with negative operating leverage, it was not a surprise that earnings-per-share were down from \$1.94 year over year.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$0.40	\$0.65	\$0.94	\$0.90	\$0.74	\$1.12	\$1.08	\$2.57	\$4.82	\$6.64	\$5.37	\$10.80
DPS	---	---	---	\$0.08	\$0.31	\$0.34	\$0.40	\$0.49	\$0.57	\$0.61	\$0.64	\$1.15
Shares¹	568	589	616	625	594	552	539	585	606	625	630	670

In recent years, NVIDIA's growth exploded. Cryptocurrency mining was one contributing factor, but demand from miners is cyclical. This was visible during recent quarters, when GPU sales were down from the previous year's levels.

NVIDIA discovered that its GPUs are very versatile in AI applications, which was an unintended benefit of the company's research and development efforts. The company has immediately started to capitalize on this trend by offering GPUs that are optimized for deep learning. These GPUs act as the brain of computers, robots, and self-driving cars. Those GPUs are utilized in professional visualization, data centers, and automobiles. The markets NVIDIA supplies GPUs for have strong growth rates, which bodes well for NVIDIA's long-term revenue outlook. Even without significant market share gains, the company should easily be able to capitalize on growing demand from gamers, professionals, and scientists. Cryptocurrencies, on the other hand, will likely not be much of a growth driver going forward.

NVIDIA has been able to grow its profits a lot more quickly than its revenues, which can be explained by operating leverage and improving economics of scale. Going forward, this should help NVIDIA achieve above-average earnings growth rates as well. NVIDIA's forecasts see a total addressable market of \$50 billion in data centers alone by 2023, which compares very favorably to the company's total revenues of \$10 billion during the last twelve months.

¹ In Millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	31.3	21.3	17.4	14.8	19.6	16.9	22.6	23.5	33.3	20.6	29.8	22.0
Avg. Yld.	---	---	---	0.6%	2.1%	1.8%	1.6%	0.8%	0.4%	0.5%	0.4%	0.5%

NVIDIA's valuation rose substantially once the company's potential in datacenters, self-driving cars, and other growth areas became recognized by the market. NVIDIA's shares were valued at well above 30 times annual net profits in 2017, but have become a bit less expensive since. NVIDIA has tremendous growth potential, but we nevertheless believe that shares are overvalued at current prices, and that a fair earnings multiple would be in the low-20s range, compared to nearly 30 times earnings shares are trading at today.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	---	---	8.9%	41.9%	30.4%	37.0%	19.1%	11.8%	9.2%	11.9%	10.6%

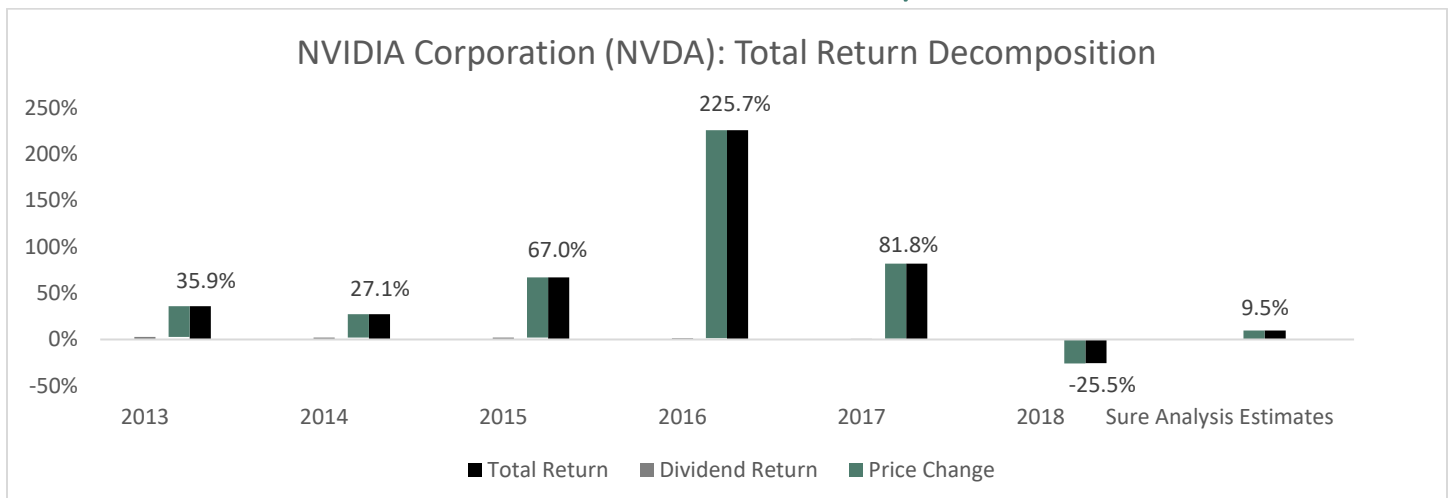
NVIDIA started paying dividends in 2012. The payout ratio has been very low throughout the majority of the years since. This means that NVIDIA has a lot of room to grow its dividend, but so far NVIDIA's management seems focused on other things. The very low dividend yield, combined with a dividend growth rate that is not especially high, means that NVIDIA does not like an attractive pick for income-oriented investors.

All of NVIDIA's business units are cyclical. The gaming market is impacted by disposable income, demand from crypto miners is dependent on cryptocurrency prices, and demand from businesses is dependent on the state of the economy. NVIDIA nevertheless was able to remain profitable during the last financial crisis. In the gaming market NVIDIA is the producer with the best tech, and it was NVIDIA who essentially established the GPU-for-AI market. It is likely that NVIDIA will remain the market leader in these two important growth markets.

Final Thoughts & Recommendation

NVIDIA's second quarter earnings results represented a meaningful improvement versus what we saw during the first quarter, although revenues continue to come in lower than during the previous year. NVIDIA has a very positive long term growth outlook, mainly due to its potential in AI and data centers. We believe that shares are overvalued today, but the total return outlook remains positive. We rate NVIDIA's volatile stock a hold at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	3326	3543	3998	4280	4130	4682	5010	6910	9714	11716
Gross Profit	1177	1409	2057	2226	2268	2599	2811	4063	5822	7171
Gross Margin	35.4%	39.8%	51.4%	52.0%	54.9%	55.5%	56.1%	58.8%	59.9%	61.2%
SG&A Exp.	367	362	406	431	436	480	602	663	815	991
D&A Exp.	197	187	204	226	239	220	197	187	199	262
Operating Profit	-99	199	648	648	496	759	878	1937	3210	3804
Operating Margin	-3.0%	5.6%	16.2%	15.1%	12.0%	16.2%	17.5%	28.0%	33.0%	32.5%
Net Profit	-68	253	581	563	440	631	614	1666	3047	4141
Net Margin	-2.0%	7.1%	14.5%	13.1%	10.7%	13.5%	12.3%	24.1%	31.4%	35.3%
Free Cash Flow	410	578	770	641	580	784	1089	1496	2909	3143
Income Tax	-14	18	82	100	70	124	129	239	149	-245

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	3586	4495	5553	6412	7251	7201	7370	9841	11241	13292
Cash & Equivalents	447	665	668	733	1152	497	596	1766	4002	782
Accounts Receivable	375	349	336	454	426	474	505	826	1265	1424
Inventories	331	346	340	412	388	483	418	794	796	1575
Goodwill & Int. Ass.	490	659	967	953	939	840	784	722	670	663
Total Liabilities	921	1314	1407	1585	2794	2783	2901	4079	3770	3950
Accounts Payable	345	286	335	356	324	293	296	485	596	511
Long-Term Debt	0	0	0	0	1356	1384	1500	2810	2000	1988
Shareholder's Equity	2665	3181	4146	4828	4456	4418	4469	5762	7471	9342
D/E Ratio	0.00	0.00	0.00	0.00	0.30	0.31	0.34	0.49	0.27	0.21

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	-2.0%	6.3%	11.6%	9.4%	6.4%	8.7%	8.4%	19.4%	28.9%	33.8%
Return on Equity	-2.7%	8.7%	15.9%	12.5%	9.5%	14.2%	13.8%	32.6%	46.1%	49.3%
ROIC	-2.7%	8.7%	15.9%	12.5%	8.3%	10.9%	10.4%	22.9%	33.8%	39.8%
Shares Out.	568	589	616	625	594	552	539	585	606	625
Revenue/Share	6.05	6.02	6.49	6.85	6.94	8.32	8.80	10.65	15.37	18.75
FCF/Share	0.75	0.98	1.25	1.03	0.97	1.39	1.91	2.31	4.60	5.03

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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